HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Montréal CMA

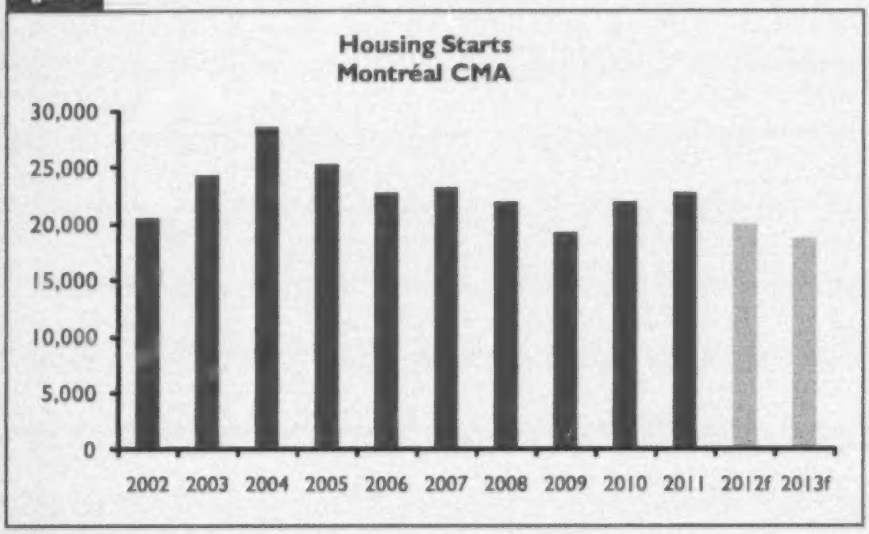
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2012

Housing market in 2012 and 2013[1]

After registering a decrease in 2011, transactions on the resale market will post a small increase in 2012. Housing demand will be supported by the continued low mortgage rates, employment growth, which will be relatively weak, and rising net migration. On the resale market, 40,700 transactions will be recorded in the Montréal census metropolitan area (CMA) this year, for a rise of 0.8 per cent over 2011. The upward movement in the supply of existing homes that began in 2010 will continue until the end of 2012, and market conditions will be balanced. As a result, there will be less pressure on prices than in 2011. Demand on the new home market will be weaker in 2012. In all, 20,100 housing units will

Figure 1



Source: CMHC

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of October 17, 2012.

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be started in the Montréal CMA, or 12 per cent fewer than in 2011.

In 2013, the increase in activity on the existing home market will again be supported by moderate employment growth but will be contained by a modest rise in interest rates, such that transactions will go up by 2.0 per cent to 41,500 sales. Supply will continue to outpace demand in 2013, which will lead to even softer market conditions. This will further weaken the growth in prices. On the new home market, starts will fall. The slowdown in activity will be essentially attributable to the condominium segment, where potential buyers will have more choice, whether they are looking on the new or existing home market. Construction should get under way on a total of 18,800 housing units, for a drop of 6 per cent.

Economic environment in 2012 and 2013

In Quebec, economic growth will be moderate in 2012 and 2013, and will be supported mainly by an increase in private investment, whereas household consumer spending should pick up next year. However, the strength of the Canadian against the U.S. dollar will continue to hinder exports. The change in the trade balance will again restrict the province's economic development. All in all, GDP will grow by 1.5 per cent in 2012 and by 2.0 per cent in 2013.

This economic environment will result in positive, but weak, employment growth in the Montréal area in 2012. Relatively weak employment in the trade, manufacturing and health care sectors will limit job growth to 0.9 per cent this year. As well, the characteristics of the jobs in the area have undergone some change this year. After having been stable for over a year, full-time employment began an upward trend in the summer of 2012. In 2013, employment in Montréal should grow by 1.1 per cent. The unemployment rate, for its part, should register a slight decrease. We forecast that this rate will reach about 8.7 per cent in 2012 and 8.4 per cent in 2013.

Demographics and migration

Net migration in the metropolitan area will stay at historically high levels both this year and next. The projected number of newcomers admitted to the province will be just over 50,000 people a year. As in recent years, more than three-quarters of these immigrants will settle in the Montréal metropolitan area. Attracted by the relative economic relative and the major North American university hub that is Montréal, a large number of non-permanent residents, mostly foreign workers and students[2], will also fuel the housing demand in the metropolitan area. While the area will continue to lose some residents to other regions of Quebec and the rest of Canada, net migration will rise in Montréal thanks to the gains from international migration. Consequently, net migration will be 32,500 in 2012 and 33,500 in 2013.

Household formation in the metropolitan area has been positive in recent years, but weaker than in the early 2000s. According to the latest census data, household growth in the metropolitan area reached 87,520 from 2006 to 2011, compared to 108,380 during the period from 2001 to 2006.

Mortgage rates

Although there is significant uncertainty, mortgage rates are not expected to change this year. A slight rise is anticipated for next year, but the rates will remain low by historical standards. According to CMHC's base case scenario, for 2012, the one-year posted mortgage rate is expected to be in the 2.75 to 3.50 per cent range. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 to 4.00 per cent range, while the five-year posted mortgage rate is forecast to be within 5.00 to 5.75 per cent, reflecting better employment and economic growth prospects for 2013.

Resale market

After having been quite strong during the first half of 2012, demand for existing homes in the Montréal CMA has slowed down during the second half of the year. In the end, transactions will register a small increase in 2012 compared to the previous year. Housing demand will be supported by rising net migration, continued low mortgage rates and some growth in employment, albeit modest. The changes made to the mortgage insurance rules will contribute to moderating demand during the second half of the year. In all, 40,700 sales should be recorded in the metropolitan area this year, in comparison with 40,362 in 2011, for a rise of 0.8 per cent. In 2013, the increase in activity on the existing home market will once again be

[2] ST-AMOUR, Martine. "Un portrait des résidents temporaires au Québec de 2000 à 2010," in Données sociodémographiques en bref, Institut de la statistique du Québec, Vol. 16, No. 2, February 2012.

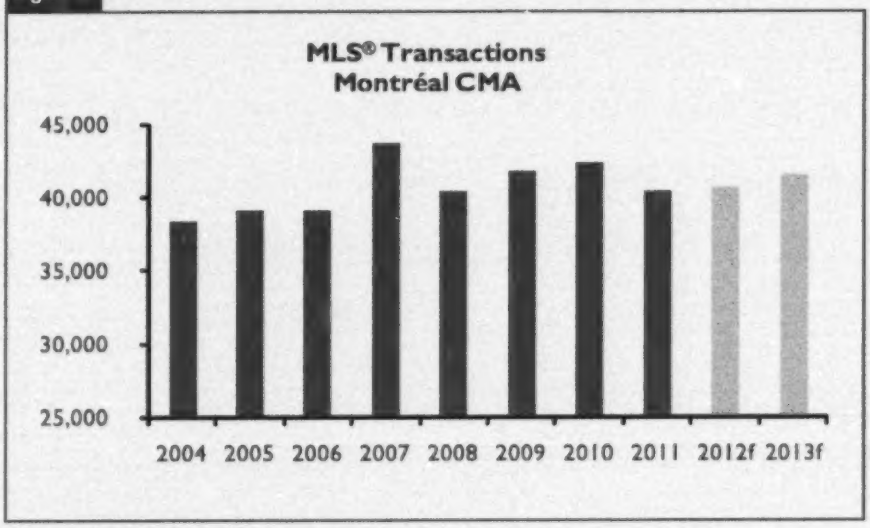
supported by moderate employment growth but will be tempered by a modest rise in interest rates—which will still remain low in relation to past years. The rise in the volume of transactions will in fact be due more to the growth in the housing stock. Transactions will go up by 2.0 per cent to 41,500 sales.

Housing supply will continue to rise throughout 2012. In fact, the average number of active listings will be close to 27,100 units this year, up by 9.7 per cent over 2011. This growth in supply is being fuelled by the large number of new listings, which are offsetting the small increase in transactions. The supply of existing homes will therefore outpace demand this year, which will lead to more balanced market conditions. As a result, the pressure on prices will become less and less strong on the Montréal area market. The average MLS® price will register an increase of 4.0 per cent in 2012, reaching $326,500, compared to a hike of 5.5 per cent in 2011.

In 2013, supply will follow a similar trend as in 2012, with listings rising further, to an average of 29,800 units. Supply will therefore continue to outpace demand. This will lead to even softer market conditions in 2013. As a result, the growth in prices will be even weaker, as the average MLS® price will reach $333,100, up by 2.0 per cent.

An analysis of the different resale market segments shows that the increase in activity in 2012 will be mainly attributable to the single-family home segment. In fact, sales of single-family homes will register a small increase but will still remain below the average for the last few years. Single-family home transactions are suffering in part from the greater affordability of condominiums, a factor that especially affects first-time buyers. Condominium sales will again post a historically high level, similar to the volume recorded in 2011. As for plexes, transactions will follow the downward trend of recent years. Active listings, for their part, will remain low from a historical standpoint, even though a small rise will be registered. This will limit potential transactions.

Figure 2



Source: QFREB by Centris®
Forecast: CMHC

Supply will grow in all market segments this year, but condominiums will see the largest increase. This will be the only market segment to have surpassed its previous peak (2009) and the first in 2012 to have eased. This rise in listings echoes the high level of condominium starts in recent years, which significantly expanded the condominium housing stock. In fact, the overall easing of the market has been largely due to this segment. In 2012, market conditions in the plex segment will also become balanced while, in single-family home segment, conditions will continue to ease and move closer to balanced market territory.

In 2013, the supply and demand movements will be in line with this year's trend, as transactions will rise slightly in all market segments except plexes, while the growth in supply will be generalized and remain more pronounced in the case of condominiums. Market conditions will therefore ease further, in all segments.

New home market

After two years of increase, activity on the new home market will slow down in 2012 and 2013. This decline will result from a less significant demand and softer conditions on the resale market. The decrease in home building will then be in line with the slowdown in household formation registered in the Montréal area at the time of the last census.

In 2012, like on the resale market, demand on the new home market is dampened, reflecting the modest economic and employment growth in the Montréal CMA. Demand for new housing is also being limited by the more balanced conditions on the resale market. Still, total housing

starts will remain strong and close to the level of recent years. In all, 20,100 housing units will be started in the Montréal CMA, or 12 per cent fewer than in 2011. On average, about 21,000 units were started annually in the last five years.

Residential construction will continue to fall in 2013, as 18,800 starts are anticipated, for a decrease of 6 per cent. Demand for new housing will again be limited by weak employment growth and softer resale market conditions. Potential buyers will have more choice on the existing home market and will have less of a tendency to turn to the new home market. The decline will be felt mainly in the condominium segment, where rising inventories of unsold new condominiums will force a slowdown in the pace of construction in relation to the last two years.

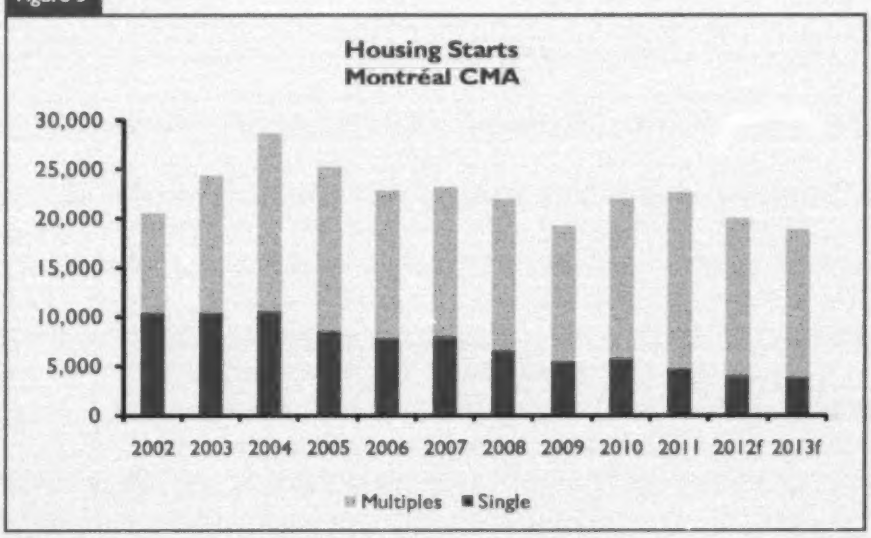
This year, 4,000 single-detached homes will be started, for a decrease of 14 per cent from 2011. In 2013, foundations should be laid for 3,900 single-detached houses in the CMA. The decrease (-3 per cent) will be less pronounced than in 2012, as the construction of homes of this type will stabilize at historically low levels. The decline will be due in part to a less significant demand, especially because of the easing of the resale market. However, the drop in single-detached home starts is in line with the downward trend that has been observed for a few years now. In fact, single-detached homes will account for only 20 per cent of all units started in the Montréal CMA in 2013, compared to 50 per cent ten years ago. The downward trend in single-detached home building is attributable to the various appealing features of multiple-unit housing, such as condominiums. From the standpoint of potential buyers, condominiums are more affordable and have features that meet their needs in terms of lifestyle, floor area and maintenance, for example. For developers and builders, condominiums allow them to maximize returns on project costs, especially land costs. Single-family home construction is increasingly scarce on the Island of Montréal and is also declining significantly in the suburbs.

In the multiple-unit housing segment, starts posted major gains in 2010 and 2011. The construction of such dwellings, which include condominiums and semi-detached and row houses, rose to an all-time high in 2011. This year, multi-family housing starts should reach 16,100 units, for a decrease of 11 per cent from last year.

The multi-unit housing construction results particularly benefited from the strong condominium activity in recent years. In 2012, condominium construction will remain strong, but the record level registered in 2011 will be difficult to match. As such, 11,700 new units are forecast, for a drop of 8 per cent from 2011. In addition to the current economic environment that will limit demand to some extent, this result will be due to the broader choice available to buyers on the resale market and among projects already under construction.

The decrease in multiple-family housing starts in 2012 will also result from a marked decline in rental housing construction. Just under 2,000 units will be started. In this segment, few retirement housing units will get under way. After having posted a boom during the last decade, the retirement home market is now taking a break. Demand for units of this type is currently limited by the growth in the population aged 75 years or older, which is rising less rapidly than in previous years. The fact that the vacancy rate in this market has remained stable at about 8 per cent for the past four years also seems to indicate that current supply is meeting demand. As for rental housing not targeted to seniors, very few new projects are planned, as builders will continue to privilege condominium construction, which is more profitable.

Figure 3



Source: CMHC

In 2013, multiple-unit housing starts will fall by 7 per cent to 14,900, mainly on account of the continued slowdown in condominium starts (-10 per cent). The prolonged easing of the condominium resale market will further limit demand for new units. As well, the completion of many condominium projects next year will lead to a rise in inventories of unoccupied condominiums. This will prompt builders to slow the pace of construction again. This pace will be more in line with the rate of household formation. Despite the slowdown, condominiums will account for over half of the homes started in the Montréal CMA. As for rental housing, the dynamics in 2013 will be similar to the situation prevailing this year, and some 2,000 new units should be started, or about the same number as in 2012.

Rental market

The vacancy rate, which stood at 2.5 per cent in 2011, will decrease slightly and reach 2.3 per cent in the fall of 2012. Despite the small drop, this rate has been relatively stable since 2006, having fluctuated between 2.9 per cent and 2.5 per cent, partly as a result of the stable supply and demand. In fact, with rental housing starts at low levels for the past few years, the stock has increased very little. On the demand side, the low mortgage rates are still favouring a movement to homeownership. However, rental housing demand continues to be supported by the arrival of many newcomers in the CMA. The effects of these two factors tend to cancel each other out, ensuring the relative stability of the vacancy rate.

Next year, the vacancy rate will fall to 2.0 per cent. The anticipated slight rise in mortgage rates will slow down the movement to homeownership. Immigration will stay at a high level and support demand, while the growth of the rental housing stock will once again be limited.

And, the average rent for two-bedroom apartments will reach $730 in 2012 and $740

Figure 4

Source: CMHC

*Private structures with three or more apartments

Trends, transitions and new realities

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Forecast Summary Montréal CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market[1]							
MLS® Sales	41,753	42,299	40,362	40,700	0.8	41,500	2.0
MLS® Active Listings	23,442	21,334	24,714	27,100	9.7	29,800	10.0
MLS® Average Price ($)	274,787	297,588	314,013	326,500	4.0	333,100	2.0
New Home Market							
Starts:							
Single-Detached	5,446	5,789	4,653	4,000	-14.0	3,900	-2.5
Multiples	13,805	16,212	18,066	16,100	-10.9	14,900	-7.5
Semi-Detached	1,032	1,292	1,178		n/a		n/a
Row/Townhouse	973	1,160	1,055		n/a		n/a
Apartments	11,800	13,760	15,833		n/a		n/a
Starts - Total	19,251	22,001	22,719	20,100	-11.5	18,800	-6.5
Average Price ($):							
Single-Detached	355,089	343,513	362,243	384,000	6.0	396,000	3.1
New Housing Price Index (% chg.)	2.4	3.1	2.9	1.2	-	1.8	-
Rental Market[2]							
October Vacancy Rate (%)	2.5	2.7	2.5	2.3	-	2.0	-
Two-bedroom Average Rent (October) ($)	669	700	719	730	-	740	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.0	3.5	3.5	3.4	-	3.8	-
Mortgage Rate (5 year) (%)	5.6	5.6	5.4	5.3	-	5.4	-
Annual Employment Level	1,905,400	1,954,200	1,952,500	1,970,900	0.9	1,993,400	1.1
Employment Growth (%)	-0.6	2.6	-0.1	0.9	-	1.1	-
Unemployment rate (%)	9.2	8.6	8.3	8.7	-	8.4	-
Net Migration	32,826	32,141	29,871	32,500	8.8	33,500	3.1

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC Forecast (2011-2012)

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